## Taxing Corporate Profits in the EU

A Comparison of the Portuguese, British and Dutch Systems

Glória Teixeira

Series on International Taxation 17



## **CONTENTS**

Preface	
Acknowledgements	xv
List of abbreviations	xvii
Note to readers	xix
INTRODUCTION	1
1. What is integration?	1
1.1 Introduction	1
1.2 Methodology	2
1.3 The 'integration' concept	3
1.4 The drawbacks of integration	4
1.5 In search of a modern tax system	5
2. Typology of tax systems	6
2.1 Classical systems	6
2.1.1 Pros and cons of the classical system	6
2.2 Imputation systems	8
2.2.1 Types of imputation system	8
2.2.2 Pros and cons of the imputation system	10
2.3 Other systems	12
2.3.1 Exemption system	12
2.3.2 Deduction system	13
2.3.3 Cash-flow system	15
3. In search of an EU tax system	17
PART I	21
PORTUGUESE CORPORATION TAX SYSTEM	21
1. What can be learned from the past?	23
1.1 Historical background	23
1.1.1 The introduction of the principle of progressi	vity 23
1.1.2 The principle of taxation of deemed income	24

## Contents

	1.2 From a classical system towards an exemption system?	24
	1.2.1 A progressive tax rate structure	25
	1.2.2 How distributed profits were taxed: classical system	25
	1.2.3 Living with a close tax system	27
	1.2.4 Towards an exemption system?	28
	1.3 Inheritance and gift taxation	30
2.	Portuguese corporation income tax system	32
	2.1 Introduction	32
	2.2 Domestic dimension	34
	2.2.1 Taxation of corporate shareholders	34
	2.2.2 Taxation of individual shareholders	39
	2.3 International dimension	43
	2.3.1 Taxation of companies	43
	2.3.2 Towards a more integrated EU corporation tax system?	48
	2.3.3 A better deal under the British tax system?	51
3.	Conclusions	54
	3.1 Taxation of individual shareholders	56
	3.1.1 The advantages of a more EU-integrated tax system	56
	3.1.2 Dutch and British positions	56
	3.2 Main findings	58
	3.2.1 The distortionary aspects of source and residence state taxati	on 58
	3.2.2 The Portuguese investor choice	58
	3.2.3 The tax treatment of equity and debt	59
	3.2.4 Living under strong tax competition	60
PA	ART II	73
UI	K CORPORATION TAX SYSTEM	73
1.	Introduction	75
	1.1 Historical background	75
	1.2 Changing the system	79
	1.2.1 Classical system	79
	1.2.2 Partial imputation system	81
2.	UK corporation income tax system	82

	2.1	Introduction	82
	2.2	Domestic dimension	85
	2.2.1	Taxation of corporate shareholders	85
	2.2.2	Taxation of individual shareholders	88
	2.3	International dimension	91
	2.3.1	Taxation of companies	91
	2.3.2	Towards more integrated EU corporation tax systems?	103
	2.3.3	Taxation of individual shareholders	115
3.	The t	ax treatment of equity and debt	118
4.	An ov	verview of the UK corporation tax system: threats and opportunities	120
	4.1	Revenue threats v. EU shareholder opportunities	120
	4.2	What will be the future of ACT?	122
			141 141
1.	Intro	luction	143
	1.1	Historical overview	143
2.	Dutch	a corporation income tax system	145
	2.1	A genuine classical system?	145
	2.2	Domestic dimension	148
	2.2.1	Taxation of corporate shareholders	148
	2.2.2	Taxation of individual shareholders	151
	2.3	International dimension	153
	2.3.1	Taxation of companies	153
	2.3.2	Towards more integrated EU corporation tax systems	157
	2.3.3	Taxation of individual shareholders	164
3.	The t	ax treatment of equity and debt	167
4	A viev	w into the future	168
TH	THE NETHERLANDS DOUBLE TAX CONVENTION MODEL		181 181 181
1	Intro	luction	182
2	The r	eed to abolish withholding taxes	182

## CONTENTS

3	Achieving capital import neutrality	182
4	The taxation of income from debt-claims	182
5	Capital gains exemption and anti-avoidance policy	183
6	Final remarks	183
	ART IV DWARDS AN EU CORPORATION TAX SYSTEM	185 185
1	Introduction	187
	1.1 Historical overview	187
	1.1.1 The Neumark report	187
	1.1.2 The Segré report	188
	1.1.3 The Commission programme	188
	1.1.4 The Van den Tempel report	189
	1.1.5 The Commission's view	189
	1.1.6 The Ruding report	190
	1.2 The achievements of the nineties	194
2	Jurisdictional claims	195
	2.1 Problems posed by the dichotomy nationality-residence	195
	2.2 Removal of discrimination: a quest for coherence	196
	2.2.1 Is it acceptable to discriminate on the basis of residence?	196
	2.2.2 Seeking clarification from the European Commission	196
	2.2.3 ECJ: again, a time to deliver	197
3	Comparison of tax burdens	201
	3.1 Domestic tax burdens	201
	3.1.1 Dismantling frontiers?	201
	3.1.2 Comparing domestic tax burdens	202
	3.2 International tax burdens	203
	3.2.1 Main findings	204
4	Fiscal implications	205
	4.1 Tax revenue developments in the EU	205
	4.2 The division of the international tax base	207
	4.2.1 Theoretical analysis	207
5	The problem of equity and debt	208

6	Conclusions	209
RI	EFERENCES AND SELECTED BIBLIOGRAPHY	219
Pc U	eneral and comparative bibliography ortugal K he Netherlands	219 224 225 227
CC N N N N	EGISLATION ouncil directives ational legislation: Portugal ational legislation: Belgium ational legislation: Germany ational legislation: United Kingdom ational legislation: The Netherlands ational legislation: USA	228 228 228 228 228 228 228 229 229 229
	NDEX	231